

## PNC Financial Services (PNC)

**\$157.26** (As of 01/07/20)

Price Target (6-12 Months): **\$165.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/01/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: A

### Summary

Shares of PNC Financial have underperformed the industry over the past three months. Yet, it has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three of the trailing four quarters. The company's commitment to expand middle market lending franchise and expand its digital products and services offerings bodes well. Moreover, execution of inorganic strategies in order to diversify revenue sources is likely to continue bolstering fee income. Also, rising loans and deposits balance keep PNC Financial well poised for growth. However, with growing business and investment in technology the company's expense base is expected to keep escalating, which poses a concern. Also, lack of diversification in loan portfolio is a headwind. Further, unsustainable capital deployment activities makes us apprehensive.

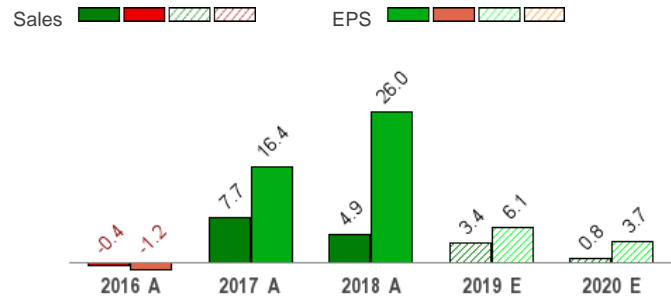
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$161.79 - \$117.17
20 Day Average Volume (sh)	1,542,735
Market Cap	\$70.0 B
YTD Price Change	-1.5%
Beta	1.15
Dividend / Div Yld	\$4.60 / 2.9%
Industry	<a href="#">Banks - Major Regional</a>
Zacks Industry Rank	Top 12% (30 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.0%
Last Sales Surprise	2.0%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	01/15/2020
Earnings ESP	0.6%
P/E TTM	14.1
P/E F1	13.4
PEG F1	1.8
P/S TTM	3.3

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	4,368 E	4,440 E	4,474 E	4,526 E	17,863 E
2019	4,286 A	4,439 A	4,493 A	4,479 E	17,718 E
2018	4,111 A	4,324 A	4,357 A	4,340 A	17,132 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.74 E	\$2.94 E	\$3.02 E	\$3.11 E	\$11.78 E
2019	\$2.61 A	\$2.88 A	\$2.94 A	\$2.92 E	\$11.36 E
2018	\$2.43 A	\$2.72 A	\$2.82 A	\$2.75 A	\$10.71 A

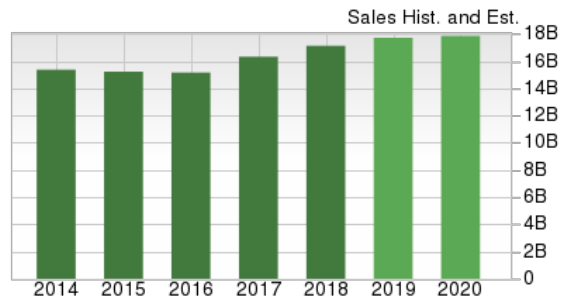
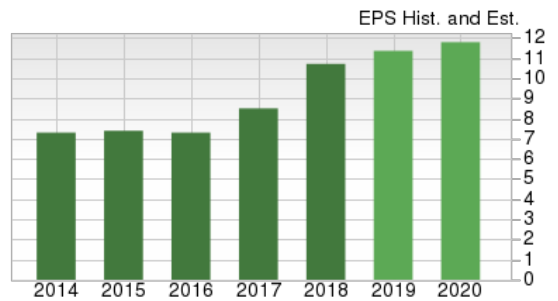
\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/07/2020. The reports text is as of 01/08/2020.

## Overview

Headquartered in Pittsburgh and incepted in 1983, PNC Financial Services Group Inc. provides consumer and business banking services. The group's principal subsidiary is PNC Bank. Effective from first-quarter 2017, PNC Financial reports through 4 business segments:

- **Retail Banking** (contributes 45% to total revenue in 2018) provides deposit, lending, brokerage, investment management, and cash management services to consumer and small business customers branch network, ATM's, call centers and online & mobile banking channels.
- **Corporate and Institutional Banking** (35%) provides lending, treasury management, and capital markets-related products and services to mid-sized and large corporations, government entities and not-for-profit organizations.
- **Asset Management Group** (7%) provides a wide range of wealth management products and services to individuals and their families, multi-generational family planning services to ultra-high net worth clients. Institutional Investments serves as an investment manager and trustee for companies, non-profit organizations and retirement plans across the country.
- **BlackRock** (5%) is a leading publicly traded investment management firm providing a broad range of investment and risk management services to institutional and retail clients worldwide. As of Sep 30, 2019, PNC Financial's equity investment in BlackRock was 22%.



In April 2017, PNC Financial acquired U.S.-based commercial and vendor finance business of ECN Capital Corp in an all-cash transaction valued at \$1.1 billion. Further, in December 2017, it acquired The Trout Group, LLC, an investor relations and strategic advisory firm. PNC Financial also acquired Fortis Advisors with a view to expand advisory business.



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## Reasons To Buy:

- ▲ PNC Financial remains committed toward developing its business through strategic initiatives. In 2017, it expanded middle-market franchise to Dallas, Kansas City and Minneapolis and has plans to target more cities in future. Also, the company continues to build its technology platform in order to serve clients better. Moreover, in 2017, PNC Financial acquired two companies, which helped strengthen its advisory services. Notably, it plans to extend the reach of middle market corporate banking franchise into new markets, and expand its retail banking brand nationally. Thus, the company's bottom line is likely to get further support, if it continues to make planned investments.
- ▲ PNC Financial's net interest margin (NIM) has benefited from the higher interest rate environment, increased yields and growth in loan balances in the past few quarters. In 2017 and 2018, the company reported a rise in NIM and net interest income (NII), after facing a volatile trend since 2009. While NII continued to rise in the first nine months of 2019, NIM contracted on account of three Fed interest rate cuts in 2019. However, the growth momentum is expected to continue in the quarters ahead given decent lending scenario. Also, the company expects NII to benefit from the Fed's decision to ease regulations, whereby it will be able to reduce debt and redeploy excess liquidity in loans and securities.
- ▲ With one of the most attractive business mixes in the banking industry, PNC Financial continues to make steady progress toward improving its non-interest income. The company's fee income has seen a five-year CAGR (2014–2018) of 2%, with the trend continuing in the first three quarters of 2019. The positive trend continued mainly on rising asset management revenues and fees from consumer services. Management believes that execution of strategic initiatives will continue to drive higher fee income moving ahead.
- ▲ PNC Financial stands solid from the balance sheet perspective. Notably, loans and deposits have seen a five-year CAGR (2014–2018) of 2.5% and 3.6%, respectively. Further, both the components continued to grow in the first three quarters of 2019. Management remains particularly focused on improving its consumer deposits, as these are Liquidity Coverage Ratio-friendly and more elastic to fluctuations in price. Going forward, with improving economy and relaxed regulations, the company is likely to continue witnessing rising loans and deposits.
- ▲ Shares of PNC Financial have underperformed the industry over the past three months. Despite this unfavorable trend, the company's current-year earnings estimates have been revised slightly upward over the past 90 days. Therefore, given the progress on fundamentals and positive estimate revisions, the stock has upside potential.

PNC Financial's continues to undertake strategic initiatives with support from strong balance sheet. Moreover, rising fee income and steady loan growth are expected to further benefit the company.

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## Reasons To Sell:

- ▼ After witnessing stable trend in the three-year period ended 2016, PNC Financial's expenses climbed at three-year CAGR (2016–2018) of 2.1%, with the trend continuing in the first nine months of 2019. Higher levels of business activity along with investments in technology and business infrastructure contributed to the increase. Though the company aims to fund part of its investments through continuous improvement savings program goals (\$300 million for 2019) that target cost saves, rising expenses base is likely to continue impacting the bottom line in the near term.
- ▼ Following the approval of its 2019 capital plan, PNC Financial raised its quarterly dividend by 21% in third-quarter 2019. The approved plan also includes share repurchase program of up to \$4.3 billion for the four-quarter period beginning third-quarter 2019. Though PNC Financial boasts an impressive capital deployment plan, its debt/equity ratio and dividend payout ratio are unfavorable compared with the broader industry. Hence, its capital deployment activities might not be sustainable.
- ▼ Majority of PNC Financial's loan portfolio — nearly 68% as of Sep 30, 2019 — comprises total commercial loans. Such high exposure to commercial loans depicts lack of diversification, which can be risky for the company amid uncertain economy and competitive markets.

Rising cost base due to investments in technology deter PNC Financial's bottom-line expansion. Also, unsustainable capital deployment activities and lack of loan diversification remain concerns.

## Last Earnings Report

### PNC Financial Q3 Earnings Top Estimates on High Revenues

PNC Financial delivered positive earnings surprise of 5% in third-quarter 2019. Earnings per share of \$2.94 surpassed the Zacks Consensus Estimate of \$2.80. Further, the bottom line jumped 4.3% from the prior-year quarter's reported figure.

Higher revenues, driven by elevated net interest income and escalating fee income, aided the company's results. However, higher costs and provisions were headwinds.

The company's net income for the quarter came in at \$1.39 billion compared with the prior-year quarter's \$1.4 billion.

Segment wise, on a year-over-year basis, quarterly net income at the Corporate & Institutional Banking and Retail banking increased marginally and 52.2%, respectively. However, the Other, including the BlackRock and Asset Management Group segments, reported 25.5% and 16.4% fall in net income, respectively.

### Revenues Rise, Costs Increase

Total revenues for the reported quarter came in at \$4.49 billion, climbing 3% year over year. Additionally, the top line surpassed the Zacks Consensus Estimate of \$4.40 billion.

Net interest income jumped 2% from the year-ago quarter to \$2.5 billion. Increased loan and securities balances, along with elevated loan yields, were partly mitigated by growth in deposit costs and borrowing and deposit balances. Yet, net interest margin contracted 15 basis points to 2.84% as elevated deposit costs were partially muted by increase in loan yields.

Non-interest income was up 5% year over year to \$1.99 billion owing to higher consumer and corporate services income, residential mortgage and other income, partially offset by lower income from asset management and service charges on deposits.

PNC Financial's non-interest expenses totaled \$2.62 billion, up 1% from the year-ago figure. This rise primarily stemmed from rise in almost all components of expenses, partly offset by lower other and personnel costs.

As of Sep 30, 2019, total loans were up slightly sequentially to \$237.4 billion. Also, total deposits rose 5% to \$285.6 billion.

### Credit Quality: A Concern

Credit metrics deteriorated in the third quarter. Non-performing assets were up 1% to \$1.85 billion year over year. Further, net charge-offs surged 70% to \$155 million.

Provision for credit losses more than doubled from the prior-year quarter to \$183 million. In addition, allowance for loan and lease losses was up 6% to \$2.7 billion.

### Steady Capital Position

As of Sep 30, 2019, the Basel III common equity Tier 1 capital ratio, effective Jan 1, 2018, was 9.6% compared with 9.3% as of Sep 30, 2018.

### Share Repurchase

During the July-September quarter, PNC Financial repurchased 7.5 million common shares for \$1 billion. Furthermore, dividends of \$0.5 billion were distributed.

### Outlook

#### Fourth-Quarter 2019

The company expects average loans to rise about 1% on a sequential basis.

Management expects NII to decline 1% sequentially. Fee income is expected to remain stable or rise 1%. Other non-interest income is anticipated to be in the range of \$300-\$350 million, excluding net securities and Visa activity.

Non-interest expenses are expected to increase about 1% on a sequential basis.

Provisions for loan loss are estimated to be in the range of \$175-\$225 million.

#### Full-Year 2019 Compared With Full-Year 2018

The company assumes continued growth in GDP along with two 25 basis point cuts in the Fed funds rate in 2019.

Average loans are anticipated to grow 5%.

Management anticipates revenues to increase in mid-single digits. NII is expected to benefit from incremental loan growth, partially offset the lower-than-expected rate environment, which will support the company's ability to achieve full-year revenue target.

Further, non-interest expenses are predicted to rise at low-single digit rates. The company expects to deliver positive operating leverage for full-year 2019.

Quarter Ending **09/2019**

Report Date	Oct 16, 2019
Sales Surprise	2.04%
EPS Surprise	5.00%
Quarterly EPS	2.94
Annual EPS (TTM)	11.18

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Adoption of a new accounting standard for credit losses, which will go into effect Jan 1, 2020 is expected to result in an overall allowance increase of 15% to 25% in 2019 compared to current aggregate reserve levels.

The effective tax rate is projected to be approximately 17%.

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## Recent News

### Federated Closes Purchase of Mutual Funds Worth \$14 Billion From PNC - Nov 19, 2019

Federated Investors completed the acquisition of certain components of PNC Capital Advisors LLC's (PCA) investment-management business for \$56 million on Tuesday. Notably, Federated had signed the deal with PNC Financial to acquire the funds earlier this May.

Per the agreement, liquidity, equity and fixed-income mutual funds of PNC Financial were reorganized into respective Federated mutual funds. Further, a portion of PNC Financial's separate account and separately-managed account business was transitioned into Federated, along with a five-person Cleveland-based international equity portfolio management team. Increased assets under management furnished Federated with various new fund offerings that would benefit its clients.

#### Terms of the Deal

Per the deal, Federated, one of the largest investment managers, reorganized 18 PNC equity, fixed-income and liquidity mutual funds into 16 respective Federated mutual funds.

Assets worth \$14 billion were reorganized on approval by PNC fund shareholders, included \$11.3 billion in liquidity assets, \$2.3 billion in equity assets and \$450 million in fixed-income assets. Remarkably, the acquired assets to be merged into Federated's existing funds possess similar investment objectives.

For quite some time, Federated has been working with different banks to provide investment products catering to client needs. Therefore, the company's experience, along with its proficiency in providing customer service, will be opportunistic for PNC Financial funds' shareholders. Moreover, the deal's completion will enable the shareholders to access a wider array of investment products. Federated is looking forward to many such opportunities, in order to provide the best services to its clients.

"This transaction builds upon Federated's long-term relationship with PNC and provides the shareholders of the funds and other PNC customers access to Federated's diverse range of investment strategies, proven performance and extensive customer service capabilities. Federated continues to seek alliance and acquisition opportunities in the U.S. and throughout the world," said J. Christopher Donahue, president and chief executive officer of Federated Investors. "We also are pleased to offer the strong historical performance of the international funds to our customers as complements to our existing range of international equity options," Donahue further added.

### PNC Financial Decreases Its Prime Lending Rate by 25 Bps - Oct 30, 2019

Pursuant to the U.S. Federal Reserve interest rate cut by 25 bps, PNC Financial reduced its prime lending rate from 5% to 4.75%, with effect from Oct 31.

#### Dividend Update

On Jan 2, 2020, PNC Financial's board of directors announced quarterly common stock dividend of \$1.15. The dividend will be paid on Feb 5 to shareholders on record as of Jan 17.

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## Valuation

PNC Financial's shares are up 30.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 27.3% and 15.2% over the past year, respectively.

The S&P 500 Index is up 24.7% in the past year.

The stock is currently trading at 13.34X forward 12 months earnings, which compares to 11.98X for the Zacks sub-industry, 14.77X for the Zacks sector and 18.79X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 17.14X and as low as 9.58X, with a 5-year median of 12.61X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$165 price target reflects 14.01X forward earnings.

The table below shows summary valuation data for PNC

Valuation Multiples - PNC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.34	11.98	14.77	18.79
	5-Year High	17.14	13.85	16.21	19.34

	5-Year High	17.17	18.88	19.21	19.87
	5-Year Low	9.58	9.04	12.01	15.17
	5-Year Median	12.61	11.43	13.98	17.44
P/TB TTM	Current	1.81	2.37	3.28	12.42
	5-Year High	2.13	2.68	3.98	12.45
	5-Year Low	1.15	1.44	2.44	6.03
	5-Year Median	1.63	2.1	3.46	9.06
P/S F12M	Current	3.93	4.11	6.53	3.48
	5-Year High	4.42	4.59	6.61	3.48
	5-Year Low	2.48	2.61	5.2	2.54
	5-Year Median	3.39	3.59	6.04	3

As of 01/07/2020



## Industry Analysis Zacks Industry Rank: Top 12% (30 out of 254)



## Top Peers

Citigroup Inc. (C)	Neutral
Fifth Third Bancorp (FITB)	Neutral
Huntington Bancshares Incorporated (HBAN)	Neutral
KeyCorp (KEY)	Neutral
M&T Bank Corporation (MTB)	Neutral
Regions Financial Corporation (RF)	Neutral
U.S. Bancorp (USB)	Neutral
Wells Fargo & Company (WFC)	Neutral

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	PNC Neutral	X Industry	S&P 500	FITB Neutral	MTB Neutral	USB Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>C</b>	<b>C</b>	<b>C</b>
Market Cap	70.02 B	42.52 B	23.72 B	21.18 B	21.89 B	89.28 B
# of Analysts	9	7	13	9	7	11
Dividend Yield	2.93%	2.65%	1.79%	3.22%	2.65%	2.94%
<b>Value Score</b>	<b>B</b>	-	-	<b>B</b>	<b>B</b>	<b>B</b>
Cash/Price	0.35	0.67	0.04	0.31	0.67	0.17
EV/EBITDA	10.86	5.17	13.90	8.44	5.17	11.52
PEG Ratio	1.76	1.45	2.00	1.41	1.37	2.15
Price/Book (P/B)	1.42	1.38	3.34	1.11	1.53	1.87
Price/Cash Flow (P/CF)	11.28	10.61	13.67	8.91	11.01	12.31
P/E (F1)	13.35	12.30	18.72	10.07	12.30	12.88
Price/Sales (P/S)	3.27	2.59	2.66	2.31	3.16	3.25
Earnings Yield	7.49%	8.13%	5.31%	9.92%	8.13%	7.77%
Debt/Equity	1.10	0.95	0.72	0.74	0.48	0.86
Cash Flow (\$/share)	13.94	6.05	6.94	3.35	15.07	4.64
<b>Growth Score</b>	<b>F</b>	-	-	<b>F</b>	<b>F</b>	<b>F</b>
Hist. EPS Growth (3-5 yrs)	11.10%	13.07%	10.56%	12.31%	16.90%	7.62%
Proj. EPS Growth (F1/F0)	3.76%	4.40%	7.42%	5.53%	-1.12%	2.18%
Curr. Cash Flow Growth	15.98%	17.06%	14.83%	-9.51%	24.17%	14.80%
Hist. Cash Flow Growth (3-5 yrs)	4.83%	7.49%	9.00%	-1.28%	8.94%	3.37%
Current Ratio	0.88	0.88	1.23	0.88	1.06	0.83
Debt/Capital	52.44%	45.81%	42.92%	40.34%	30.74%	43.26%
Net Margin	24.96%	23.17%	11.08%	24.36%	28.58%	26.54%
Return on Equity	10.94%	12.25%	17.16%	11.40%	13.82%	15.39%
Sales/Assets	0.05	0.05	0.55	0.06	0.06	0.06
Proj. Sales Growth (F1/F0)	0.97%	0.56%	4.15%	-3.19%	-1.80%	0.42%
<b>Momentum Score</b>	<b>A</b>	-	-	<b>A</b>	<b>B</b>	<b>B</b>
Daily Price Chg	-0.79%	-0.79%	0.10%	-1.13%	-1.21%	-0.95%
1 Week Price Chg	-1.23%	-0.81%	-0.30%	-1.49%	-0.14%	-2.04%
4 Week Price Chg	1.07%	0.67%	2.33%	-1.94%	-0.69%	-4.65%
12 Week Price Chg	10.85%	9.45%	7.02%	9.04%	4.45%	6.32%
52 Week Price Chg	29.81%	21.85%	24.61%	19.26%	10.04%	21.85%
20 Day Average Volume	1,542,735	3,723,793	1,589,897	3,723,793	436,149	5,744,313
(F1) EPS Est 1 week change	0.11%	0.28%	0.00%	0.29%	0.37%	0.10%
(F1) EPS Est 4 week change	0.14%	0.51%	0.00%	0.44%	0.72%	-0.30%
(F1) EPS Est 12 week change	-0.12%	-0.12%	-0.56%	-1.76%	-3.38%	0.60%
(Q1) EPS Est Mthly Chg	0.50%	0.43%	0.00%	0.38%	-0.69%	-0.94%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	F
Momentum Score	A
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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### Disclosures

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